

# FDIC State Profile

Spring 2006

## Nebraska

Nebraska achieved robust job growth in 2005 and its manufacturing sector began recovery.

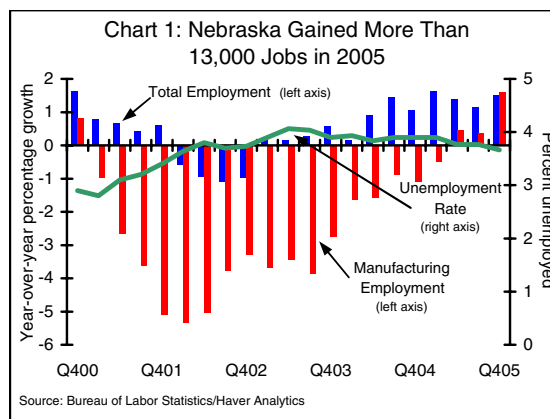
- Nebraska's job growth accelerated in fourth quarter 2005, adding 3,500 jobs. This contributed to more than 13,000 jobs added for 2005, the strongest annual increase since 2000. Every major sector except information added jobs in 2005. Year-over-year employment growth in the fourth quarter was 1.5 percent, compared to the national rate of 1.4 percent (see Chart 1).
- In 2005, Nebraska's manufacturing employment sector added 1,600 jobs, the first annual increase since 2000. However, the sector is still more than 12,000 jobs below its peak level achieved in second quarter 1998. The most significant declines have occurred in machinery and computer manufacturing.
- Continued job growth caused unemployment in the fourth quarter to decline to 3.7 percent, the lowest level reported since fourth quarter 2001.

**Nebraska's farm income is expected to decline in 2006.**

- The United States Department of Agriculture (USDA) has forecasted a 22 percent decline in national farm income from 2005 to 2006 due to lower livestock and crop values and increased energy costs. Nebraska farmers can expect a similar decline in their farm income.
- Record corn harvests in 2004 and 2005, both nationally and in Nebraska, have led to record inventories, depressing the price in 2006 (see Table 1). Similarly, a record soybean harvest in 2005 has lowered the price of that commodity.
- Cattle prices will begin to moderate in 2006 as the cattle population is expanding in response to the high prices enjoyed in 2004 and 2005. The nationwide population of cattle increased in 2005 for the first time since 1994.

**Drought conditions continued to threaten Nebraska.**

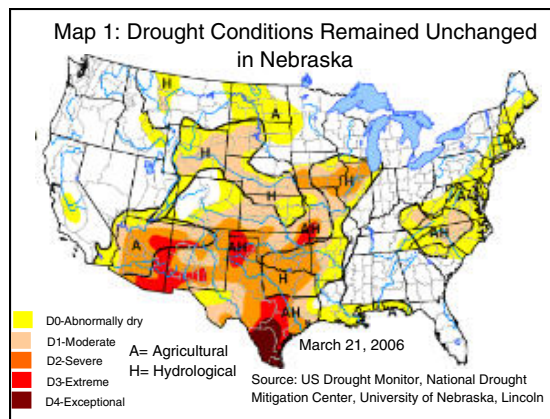
- Drought conditions have persisted in Nebraska since 2000 (see Map 1). While the severity of drought conditions across the state has diminished somewhat over the past year, conditions remain "abnormally dry" to "moderate."



**Table 1: Most Commodity Prices Are Expected to Decline in 2006**

	2003	2004	Est. 2005	Forecast 2006	% of NE Ag Cash Receipts
Corn	2.32	2.42	2.06	1.90	21.6
Soybeans	5.53	7.34	5.74	5.50	10.9
Wheat	3.56	3.40	3.40	3.40	1.8
Cattle	84.69	84.75	87.28	85.50	52.6
Hogs	39.45	52.51	50.05	43.50	6.5
Other					6.6

Note: Grain prices are for marketing year of each crop. Crop quantities are per bushel; livestock are per hundredweight.  
Source: USDA WASDE, February, 2006 USDA/ERS 2005



## State Profile

- Persistent drought conditions have resulted in reduced aquifer, reservoir, and river levels, spurring various new regulations on crop irrigators who could face reduced crop yields if rainfall does not make up for lower pumping allocations.
- Despite unusually warm, dry conditions over the winter months, the USDA reports that the winter wheat crop remains in good condition.

### Energy prices for Nebraska farmers are forecasted to rise again in 2006.

- According to the USDA, in February 2006 fertilizer and fuel costs were up 16 percent and 30 percent, respectively, from one year earlier. Overall, fertilizer and fuel costs are forecasted to increase 9.7 percent nationally in 2006 (see Table 2).<sup>1</sup>
- Rising costs for fertilizer and fuel are in part due to increased global fuel demand and the continued recovery from last year's active hurricane season; in the Gulf region, approximately 17 percent of normal natural gas production and 25 percent of oil production remain off-line.<sup>2</sup>
- Nationally, the USDA estimates that fuel and fertilizer costs accounted for 10.9 percent of total agricultural production costs in 2005, up 11 percent from 2004.

### Nebraska institutions reported stable earnings in 2005.

- Nebraska's insured institutions reported a median annual return on assets ratio of 1.08 percent in 2005, almost unchanged from the prior year. Noninterest income and noninterest expense both increased slightly, while loan provisioning was largely unchanged.
- The median annual net interest margin declined for a third consecutive year as the spread between loan and security yields and funding interest costs continued to narrow (see Chart 2).
- A sizeable shift in earning assets mix from securities to loans, which tend to be higher yielding than securities, offset some of the negative effects of narrowing yield-cost spreads. The median loan-to-assets ratio has increased from 65.3 percent in 2003 to a historically high 68.5 percent in 2005.

### Nebraska institutions reported sharp increases in construction and development loan (C&D) concentrations.

- Insured institutions, particularly those headquartered in the state's larger urban markets, reported strong growth

in C&D lending recently, boosting C&D concentrations to new highs (see Chart 3). This growth mirrored strong but decelerating growth in Nebraska's construction sector. This type of loan tends to have higher risk but also yields higher returns.

- Although state C&D concentrations have increased, they remain subdued relative to national figures. Nationally, the median C&D concentrations for metropolitan and micropolitan areas are 61 percent and 28 percent, respectively.

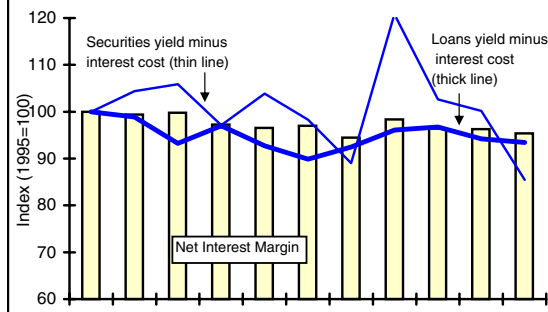
**Table 2: Higher Energy Costs Are Expected for Nebraska Farmers in 2006**

	Acres* (1,000)	Cost per acre** 2006 estimates		Cost per acre** 2000-2004 Avg.	
		Fuel	Fertilizer	Fuel	Fertilizer
Corn	8,500	41.94	58.25	24.26	42.47
Soybeans	4,700	13.52	10.25	8.49	7.69
Wheat	1,850	16.95	28.24	10.38	21.20

\*Estimated 2005 Planted Acres. \*\*Cost per acre for nation.

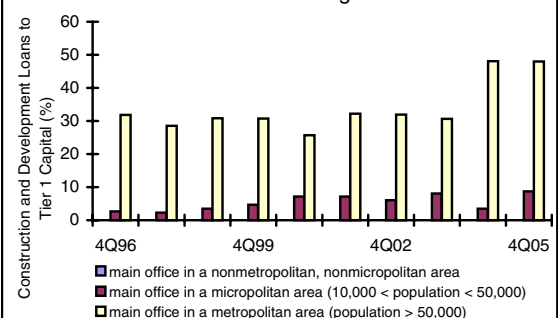
Source: USDA/NASS Crop Production, USDA/ERS Cost and Returns Data

**Chart 2: Net Interest Margins and Yield Spreads Declined at Nebraska Institutions**



Source: FDIC, all insured institutions. Data is four-quarter annualized data, median values.

**Chart 3: Construction Lending Increased Sharply At Institutions in Nebraska's Larger Urban Areas**



Source: FDIC, all insured institutions open more than three years, median data.

<sup>1</sup>NASS, USDA, *Agricultural Prices*, February 28, 2006.

<sup>2</sup>Office of Electricity Delivery and Energy Reliability (OE), US Department of Energy, *Final Gulf Coast Hurricanes Situation Report (#46)*, January 26, 2006.

## Nebraska at a Glance

**ECONOMIC INDICATORS** (Change from year ago, unless noted)

<b>Employment Growth Rates</b>	<b>Q4-05</b>	<b>Q3-05</b>	<b>Q4-04</b>	<b>2004</b>	<b>2003</b>
Total Nonfarm (share of trailing four quarter employment in parentheses)	1.7%	1.2%	1.0%	0.9%	0.3%
Manufacturing (11%)	1.5%	0.4%	-1.1%	-1.3%	-3.4%
Other (non-manufacturing) Goods-Producing (5%)	-3.4%	-1.3%	0.1%	2.1%	3.0%
Private Service-Producing (67%)	2.1%	1.7%	1.7%	1.4%	0.7%
Government (17%)	1.4%	0.4%	0.2%	0.2%	0.5%
Unemployment Rate (% of labor force)	3.7	3.8	3.9	3.9	4.0
<b>Other Indicators</b>	<b>Q4-05</b>	<b>Q3-05</b>	<b>Q4-04</b>	<b>2004</b>	<b>2003</b>
Personal Income	N/A	3.8%	5.8%	5.6%	6.1%
Single-Family Home Permits	17.3%	18.0%	9.5%	4.4%	18.9%
Multifamily Building Permits	-34.4%	-34.1%	64.2%	14.1%	-36.0%
Existing Home Sales	-2.8%	3.4%	-3.9%	4.7%	10.8%
Home Price Index	4.2%	4.9%	5.3%	5.1%	3.1%
Nonbusiness Bankruptcy Filings per 1000 people (quarterly annualized level)	8.32	6.96	4.77	5.02	4.82

**BANKING TRENDS**

<b>General Information</b>	<b>Q4-05</b>	<b>Q3-05</b>	<b>Q4-04</b>	<b>2004</b>	<b>2003</b>
Institutions (#)	258	261	263	263	270
Total Assets (in millions)	36,843	46,821	46,108	46,108	45,654
New Institutions (# < 3 years)	1	1	2	2	3
Subchapter S Institutions	85	83	79	79	75
<b>Asset Quality</b>	<b>Q4-05</b>	<b>Q3-05</b>	<b>Q4-04</b>	<b>2004</b>	<b>2003</b>
Past-Due and Nonaccrual Loans / Total Loans (median %)	1.47	1.54	1.68	1.68	1.85
ALLL/Total Loans (median %)	1.47	1.50	1.51	1.51	1.57
ALLL/Noncurrent Loans (median multiple)	1.97	2.16	2.10	2.10	1.97
Net Loan Losses / Total Loans (median %)	0.02	0.00	0.02	0.07	0.12
<b>Capital / Earnings</b>	<b>Q4-05</b>	<b>Q3-05</b>	<b>Q4-04</b>	<b>2004</b>	<b>2003</b>
Tier 1 Leverage (median %)	9.89	9.85	9.67	9.67	9.68
Return on Assets (median %)	0.93	1.23	0.89	1.09	1.05
Pretax Return on Assets (median %)	1.16	1.56	1.17	1.42	1.38
Net Interest Margin (median %)	4.15	4.18	4.20	4.18	4.19
Yield on Earning Assets (median %)	6.54	6.33	5.99	5.88	6.15
Cost of Funding Earning Assets (median %)	2.37	2.15	1.79	1.72	2.02
Provisions to Avg. Assets (median %)	0.02	0.00	0.00	0.07	0.11
Noninterest Income to Avg. Assets (median %)	0.54	0.54	0.56	0.52	0.54
Overhead to Avg. Assets (median %)	3.09	2.76	3.05	2.84	2.81
<b>Liquidity / Sensitivity</b>	<b>Q4-05</b>	<b>Q3-05</b>	<b>Q4-04</b>	<b>2004</b>	<b>2003</b>
Loans to Assets (median %)	68.2	69.0	66.7	66.7	64.7
Noncore Funding to Assets (median %)	19.1	20.2	17.3	17.3	17.1
Long-term Assets to Assets (median %, call filers)	10.2	10.8	11.7	11.7	11.7
Brokered Deposits (number of institutions)	84	83	83	83	81
Brokered Deposits to Assets (median % for those above)	2.9	3.1	2.6	2.6	2.3
<b>Loan Concentrations (median % of Tier 1 Capital)</b>	<b>Q4-05</b>	<b>Q3-05</b>	<b>Q4-04</b>	<b>2004</b>	<b>2003</b>
Commercial and Industrial	82.9	78.3	76.7	76.7	75.6
Commercial Real Estate	61.1	58.8	57.9	57.9	46.8
Construction & Development	4.7	4.5	3.0	3.0	2.6
Multifamily Residential Real Estate	0.0	0.0	0.0	0.0	0.0
Nonresidential Real Estate	43.6	42.9	42.5	42.5	39.6
Residential Real Estate	67.0	68.5	67.6	67.6	66.4
Consumer	36.8	38.0	38.8	38.8	44.2
Agriculture	279.0	289.6	292.1	292.1	269.8

**BANKING PROFILE**

<b>Largest Deposit Markets</b>	<b>Institutions in Market</b>	<b>Deposits (\$ millions)</b>	<b>Asset Distribution</b>	<b>Institutions</b>
Omaha-Council Bluffs, NE-IA	74	14,442	< \$250 million	233 (90.3%)
Lincoln, NE	26	4,260	\$250 million to \$1 billion	19 (7.4%)
Sioux City, IA-NE-SD	34	2,051	\$1 billion to \$10 billion	6 (2.3%)
			> \$10 billion	0 (0%)